

# Independent Research Report – Havells India Ltd

Robust top line, but margins below expectations

Industry: Capital goods  
Date: August 12, 2010



Havells India's (Havells') standalone revenue growth in Q1FY11 was largely in line with our expectations but lower EBITDA and PAT margins were a surprise. The 22% growth in Q1FY11 top line was driven mainly by ~39% growth in the consumer durables, and lighting and fixtures segments. A decline in the cable and wires segment's EBIT margin to 7% this quarter vs. 12% in 1QFY10 lowered Havells' overall margins. Though the higher tax rate (23% vs. 18% in 4QFY10) also impacted net margins, we believe it is a one-off event and will eventually phase out due to the shift in the company's production to tax-exempt areas. On the international front, Sylvania's revenues in rupee terms declined due to a weak euro. However, as expected, PBT was positive. We maintain our fundamental grade of '4/5', and the valuation grade of '3/5', indicating that the current price is 'aligned' with our revised fair value of Rs 660.

## Q1FY11 result analysis

### Havells (standalone)

- Q1FY11 revenues grew by 22% y-o-y and 2% q-o-q to Rs 7,170 mn, in line with our expectations. The revenue mix changed favourably as relatively higher-margin segments contributed more. The consumer durables (~25-30% EBIT margin), and lighting and fixtures (16-20% EBIT margin) segments contributed 18% and 15%, respectively, vs. our expectation of 13% each.
- Despite a favourable change in the revenue mix, EBITDA margins declined by about 128 bps to 11% during the quarter on account of higher raw material costs in the cable and wires segment (~41% of total revenues). EBIT margins in this segment declined by 528 bps compared to the corresponding quarter of the previous year. However, we expect the company to pass on the higher cost to customers and, hence, expect its standalone EBITDA margins to improve to 11.6% in FY11.
- Havells' tax rate was 23% during the quarter vs. our expectation of 17%. This was mainly because tax benefits on some of the manufacturing facilities expired this quarter. With the production base moving to tax-exempt areas, we expect tax rate of 17% from Q2FY11 onwards.
- While EPS for Q1FY11 increased by 8% y-o-y to Rs 8.9, it declined by 17% q-o-q.

### Sylvania

- Strong business in Asia and Latin America led to a 6% y-o-y growth in Sylvania's revenues in euro terms. However, revenues declined by 11% y-o-y to Rs 6,302 mn due to a weak euro.
- EBITDA margins were 4.5% compared to 4.9% in Q4FY10 and 0.7% in Q1FY10.
- Benefits of the restructuring became visible this quarter and Sylvania turned profitable on a PBT basis. Sylvania made a marginal loss of Rs 24 mn at the PAT level during the quarter. This compares favourably with a loss of Rs 729 mn and Rs 851 mn in Q1FY10 and Q4FY10, respectively.

### Valuations – aligned with the current market price

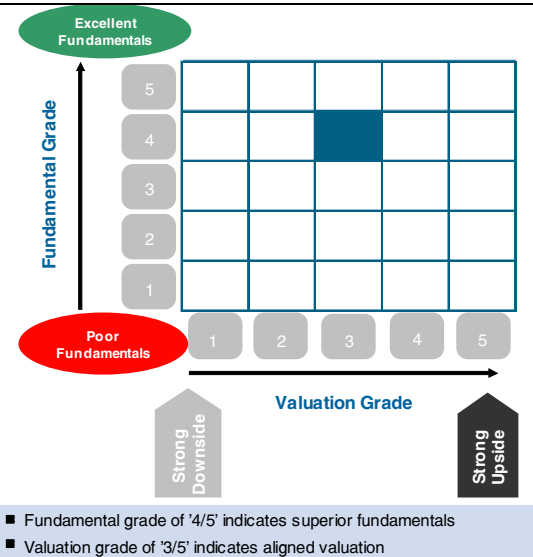
We continue to use the sum-of-the-parts approach to value Havells (standalone) and Sylvania separately. Factoring in the margin impact and higher tax rate, we have lowered Havells' standalone estimates marginally. For Sylvania, we have changed our euro-rupee call by ~10% (Rs 60 vs. Rs 66 earlier). We have rolled forward our earnings estimates by one year. Based on the revised estimates, we value Havells at Rs 660 (upward revision of around 7%). At this fair value, the implied P/E is 12x our FY12 EPS estimate of Rs 55. We maintain the valuation grade of '3/5', indicating that the current price is 'aligned' with our revised fair value of Rs 660.

### Key forecast (consolidated financials)

(Rs mn)	FY09	FY10P	FY11E	FY12E	FY13E
Operating income	54,824	54,004	56,425	63,913	69,703
EBITDA	3,109	3,731	4,846	6,166	7,133
Adj Net income	-1,601	-1,592	2,276	3,334	3,985
EPS-Rs	-27.5	-26.5	37.8	55.4	66.2
EPS growth (%)	n.m.	3.7	n.m.	46.5	19.5
PE (x)	n.m.	n.m.	18.4	12.5	10.5
P/BV (x)	5.5	8.0	5.8	4.1	3.1
RoCE (%)	11.5	16.2	24.0	29.7	30.7
RoE (%)	-24.5	-27.9	36.4	38.4	33.7
EV/EBITDA (x)	13.9	13.9	10.1	7.6	6.0

Source: Company, CRISIL Equities estimate

### CFV matrix

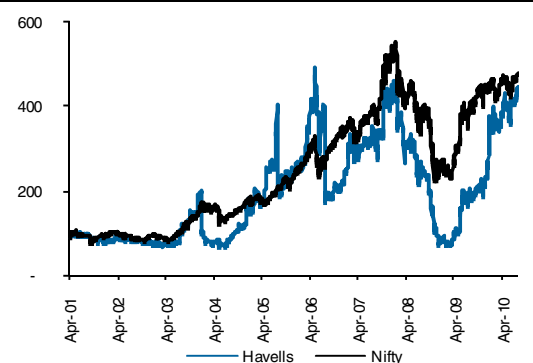


### Key stock statistics

NSE/BSE ticker	HAVELLS
Fair value	660
Current market price*	695
Shares outstanding (mn)	60
Face Value (Rs)	5
Market cap (Rs mn)	41,817
Enterprise value (Rs mn)	51,954
52-week range(Rs)(H/L)	732/260
PE on EPS estimate (FY11E)(x)	18.4
Beta	1.3
Free float (%)	39.8
Average daily volumes (3 months)	378,067

\* as on 12 August 2010

### Share price movement



\*Indexed to 100

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